Department of the Treasury
Internal Revenue Service
Tax Exempt and Government Entities

IRS

Date:
06/26/2025
Taxpayer ID number:

Person to contact:
Name:

Release Number: 202538043
Release Date: 9/19/2025

LEGEND
B = Program
C = Territory
D = City
x = Number Range
y dollars = dollar amount
z dollars = dollar amount

UIL: 4945.04-04

Dear :

You asked for advance approval of your educational grant procedures under Internal Revenue Code (IRC) Section 4945(g)(3).

This approval is required because IRC Section 4945 provides for the imposition of taxes on each taxable expenditure of a private foundation. IRC Section 4945(d)(3) provides that the term "taxable expenditure" includes any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or similar purposes by the individual, unless the grant satisfies the advance approval requirement of IRC Section 4945(g).

Our determination

We approved your procedures for awarding educational grants. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding educational grants meet the requirements of IRC Section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

Description of your request

Your letter indicates you will operate a grant program for early-stage, purpose-driven technology entrepreneurs from underserved backgrounds to participate in your B. The B is a -month experiential program designed to stimulate economic development in C through various educational modalities to encourage and support entrepreneurship for recent graduates and young professionals.

Through the B, entrepreneurs gain the skills, mentorship, and financial backing necessary to empower them with the knowledge, experience, and capital to foster a strong local entrepreneurial and technology-based ecosystem in C that benefits the area's economic development.

Such economic development is needed in C, and particularly D, due to historic and present-day challenges to economic vitality and growth in the area as demonstrated by governmental designations indicating widespread economic need and qualification for federal economic adjustment assistance. A high percentage of residents in these areas live below the federal poverty line with high rates of unemployment reported amongst youth and skilled labor. Therefore, your program serves as both an educational grant for your participants and an economic development initiative through the following:

- Economic Diversification and Resilience: A robust base of local entrepreneurs in economically disadvantaged areas, such as C and D, stimulates local economies by encouraging a wide variety of business creation, thus reducing reliance on traditional industries to support local economies and buffering against external economic forces that harm them, helping to achieve economic growth and stability. This diversification makes the economy more adaptable and resilient to economic shocks caused by various events, such as natural disasters.

- Job Creation and Talent Retention: Local businesses hire local talent, thus creating much-needed jobs and providing opportunities for local workers in these areas, benefitting their economic growth and stability.

- Innovation and Problem Solving: By supporting entrepreneurial ventures, you will cultivate a culture of innovation across C and D and contribute to the development of technology-based solutions tailored to the unique challenges and opportunities within these areas.

- Increased Local Investment and Wealth Creation: Successful local businesses contribute to the local tax base and generate wealth within communities, fostering a cycle of reinvestment and economic growth.

The months of participation in the B will provide your grant recipients with a collaborative learning environment that includes the following activities to achieve your purposes of educating entrepreneurs to achieve economic development and stimulation in C and D:

- Structured workshops, lectures, courses, meetings, and training to improve business acumen and economic viability, and provide other training in functional areas like human resources, legal, and product development

- Access to a professional network of high-quality, motivated mentors and investors interested in financially supporting the entrepreneurial ventures of your grant recipients to initiate or scale ventures to stimulate and stabilize the economies in C and D

Your grant program is a one-time opportunity with no renewals. The funds are intended to be used during the term for housing expenses, travel, lodging, and business expenses required to participate in the B. You anticipate funding between x grants for individuals who have been admitted to the B, in the amount of y dollars each; or, if there are two applicants connected to the same start-up venture, each will get z dollars. Your grants will not exceed these amounts.

You will publicize your educational grant program through a variety of traditional and social media marketing channels, including physical marketing, local press, in-person events, and a dedicated website, where potential participants may also access your application.

Eligible applicants must be born in, or have a strong heritage within, C, and be committed to maintaining business operations in C, with a preference for applicants in underserved municipalities, particularly D. Applicants must be fluent in Spanish and English and have a core team and an early-stage concept for a product or service, with preference given to applicants building software or technology-enabled service businesses with innovative social impact business models that address specific community needs.

Applicants must submit written applications, pitch decks, and complete interviews as part of your selection process. Your criteria for selecting recipients include:

- Supporting early-stage startup operations with an entrepreneurial commitment to C, including attitude towards job creation for local residents
- Strength of business concept, including scalability, social impact, and viability
- Team capability, multilingual abilities, and social mission
- Community membership, such as operating in under-resourced regions like D, associated with the application

You will make every effort to identify applicants who stand to benefit the most from the unique elements of the B, which includes one-on-one mentorship and delivery of highly structured educational content. Other relevant factors may include current university status, such as students or recent graduates, low-income applicants, idea-stage businesses, and social entrepreneurs.

Applicants that demonstrate a high match to the B criteria with their entrepreneurial venture will be reviewed by an independent selection committee. Each grantee will enter into an agreement before funding is provided, requiring two reports, a midpoint report and a final report, with extensive reporting on their activities during the program and a financial accounting of the use of the grant. In addition, the grantee is required to fulfill a milestone meeting calendar requirement, as well as workshops, educational courses, and mentor meetings. The grantee is also required to complete numerous take-home educational assignments and complete all other participation requirements of the B curriculum.

You will monitor and evaluate the expenditure of funds, and the progress made by each grantee in the B. Any apparent misuse of grant funds will be promptly investigated. If you discover that funds have been misused, you will require the recipient return the funds immediately and no further distributions will be made to the recipient.

You will use a series of independent selection committees to select your grantees. Members of the selection committee are volunteers, receiving no compensation for their roles. Relatives of the selection committee, nor your officers, directors, or substantial contributors, are eligible for awards under your program.

You will disburse your grant funds directly to recipients' personal bank accounts. You will maintain case histories for recipients, including names, addresses, purposes of grants, amounts of grants, manner of selection, and relationships (if any) to officers, trustees or donors.

You represent that you will complete the following:

- Arrange to receive and review grantee reports annually and upon completion of the purpose for which the grant was awarded,
- Investigate diversion of funds from their intended purposes,
- Take all reasonable and appropriate steps to recover the diverted funds and ensure other grant funds held by a grantee are used for their intended purposes, and
- Withhold further payments to grantees until you obtain grantees' assurances that future diversions will not occur and that grantees will take extraordinary precautions to prevent future diversion from occurring.

You also represent that you will:

- Maintain all records relating to individual grants including information obtained to evaluate grantees,
- Identify a grantee is a disqualified person,
- Establish the amount and purpose of each grant, and
- Establish that you undertook the supervision and investigation of grants described above.

Basis for our determination
IRC Section 4945 imposes excise taxes on the taxable expenditures of private foundations. A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study or other similar purposes. However, a grant that meets all the following requirements of IRC Section 4945(g) is not a taxable expenditure.

- The foundation awards the grants on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is:
  - A scholarship or fellowship subject to IRC Section 117(a) and is to be used for study at an educational organization described in IRC Section 170(b)(1)(A)(ii); or
  - A prize or award subject to the provisions of IRC Section 74(b), if the recipient of the prize or award is selected from the general public; or
  - To achieve a specific objective; produce a report or similar product; or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar skill or talent of the recipient.

To receive approval of its educational grant procedures, Treasury Regulation Section 53.4945-4(c)(1) requires that a private foundation show:

- The grant procedure includes an objective and nondiscriminatory selection process.
- The grant procedure results in the recipients performing the activities the grants were intended to finance.
- The foundation plans to obtain reports to determine whether the recipients have performed the activities that the grants were intended to finance.

Other conditions that apply to this determination

- This determination only covers the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.

- This determination applies only to you. It may not be cited as a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes to your program to the IRS at:

  Internal Revenue Service
  Exempt Organizations Determinations
  TE/GE Stop 31A Team 105
  P.O. Box 12192
  Covington, KY 41012-0192
- You can't award grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with IRC Section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

We'll make this determination letter available for public inspection after deleting personally identifiable information, as required by IRC Section 6110. We've enclosed Letter 437, Notice of Intention to Disclose - Rulings, and a copy of the letter that shows our proposed deletions.

- If you disagree with our proposed deletions, follow the instructions in the Letter 437 on how to notify us.
- If you agree with our deletions, you don't need to take any further action.

We've sent a copy of this letter to your representative as indicated in your power of attorney.

Please keep a copy of this letter in your records.

If you have questions, you can contact the person shown at the top of this letter.

Sincerely,

Stephen A. Martin
Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Letter 437

cc: